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## Canada

## Livestock and Products

## Semi-Annual

## 2006

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**Report Highlights:**

This report updates developments in the Canadian cattle and hog sectors with regard to livestock inventories, meat and livestock trade, and other factors affecting beef and pork production in Canada during 2006.

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Includes PSD Changes: Yes  
Includes Trade Matrix: No  
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**Important Note:** Readers are advised that the inventory numbers for 2005 and 2006 in this report are post estimates made just prior to the Statistics Canada information release of livestock surveys due mid-February 2006. Consequently, the estimates in this report are subject to revision when the Statistics Canada livestock inventory numbers are officially released.

### Executive Summary

- \* The Canadian cattle herd is expected to stabilize during 2006, in contrast to the dramatic rise in cattle numbers since Canada's first case of BSE was discovered in May 2003.
- \* The outlook for Canadian beef and veal production in 2006 is for a year-to-year increase of about 1.4% taking total beef and veal output close to 1.5 million metric tons.
- \* The U.S. border re-opened for imports of Canadian cattle under 30 months in July 2005, but the number exported since that time is below the pre-BSE rate due to a combination of factors that includes increased Canadian slaughter capacity.
- \* Canada's confirmation of its fourth case of BSE in January 2006 is not expected to result in the closure of the major export markets that re-opened to Canadian beef over the past two years.
- \* Canada's hog industry in 2006 is expected to be characterized by increased live hog exports to the United States, higher pork exports to third country destinations and strong demand for imports of certain U.S. pork cuts.
- \* With continued increases in Canadian pork exports, now over the 1.0 million metric ton level, the Canadian domestic market plays a smaller role in influencing Canadian pork production swings.

## Production

### Cattle Herd to Stabilize in 2006

The Canadian cattle herd is expected to stabilize during 2006, in contrast to the dramatic rise in cattle numbers since Canada's first case of BSE was discovered in May 2003. The subsequent loss and/or interruption of international markets for Canadian cattle was accentuated by inadequate slaughter capacity in Canada leading to record on-farm cattle inventories throughout 2004 and 2005. Since that time some reshaping has taken place in the industry in line with market access developments. The major factors contributing to the gradual stabilization of Canadian cattle numbers in 2006 are: 1) U.S. action to grant Canada access to the U.S. market for boneless beef (August 8, 2003); 2) the expansion of Canadian slaughter capacity for fed and cull cattle; 3) renewed access to U.S. live markets for cattle under 30 months of age for immediate slaughter or designated feedlots (July 18, 2005) and; 4) U.S. action to allow Canadian slaughter and processing facilities that also process cattle over 30 months of age to retain their export eligibility as long as specific segregation procedures are in place.

Commodity	Animal Numbers, Cattle (1000 HEAD)					
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]
Market Year Begin		01/2004		01/2005		01/2006
Total Cattle Beg. Stks	14660	14653	15083	15083	15125	15200
Dairy Cows Beg. Stks	1055	1055	1066	1066	1065	1060
Beef Cows Beg. Stocks	5019	5019	5317	5317	5250	5200
Production (Calf Crop)	5562	5562	5900	5800	5900	5750
Intra EC Imports	0	0	0	0	0	0
Total Imports	15	15	25	22	30	25
TOTAL Imports	15	15	25	22	30	25
TOTAL SUPPLY	20237	20230	21008	20905	21055	20975
Intra EC Exports	0	0	0	0	0	0
Total Exports	0	0	575	550	900	900
TOTAL Exports	0	0	575	550	900	900
Cow Slaughter	425	425	520	560	570	570
Calf Slaughter	379	379	385	375	350	360
Other Slaughter	3636	3636	3695	3495	3730	3570
Total Slaughter	4440	4440	4600	4430	4650	4500
Loss	714	707	708	725	600	675
Ending Inventories	15083	15083	15125	15200	14905	14900
TOTAL DISTRIBUTION	20237	20230	21008	20905	21055	20975

**Beef Production Higher in 2006**

Assuming no dramatic departure from Canada's current status as an eligible beef exporter under the BSE-related import policies of its major trading partners, the outlook for Canadian beef and veal production in 2006 is for a year-to-year increase of about 1.4% taking total beef and veal output to approximately 1.5 million metric tons compared to an estimated 1.47 million metric tons produced during 2005.

Commodity	Meat, Beef and Veal					
	(1000 MT CWE)(1000)					
	2004	Revised	2005	Estimate	2006	Forecast
Market Year Begin	01/2004	01/2004	01/2005	01/2005	01/2006	01/2006
Slaughter (Reference)	4440	4440	4600	4430	4650	4500
Beginning Stocks	49	49	42	42	45	40
Production	1496	1496	1530	1470	1560	1490
Intra EC Imports	0	0	0	0	0	0
Total Imports	111	110	135	135	130	125
TOTAL Imports	111	110	135	135	130	125
TOTAL SUPPLY	1656	1655	1707	1647	1735	1655
Intra EC Exports	0	0	0	0	0	0
Total Exports	559	559	615	570	640	550
TOTAL Exports	559	559	615	570	640	550
Human Dom. Consumptic	1055	1054	1047	1037	1057	1065
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumptic	1055	1054	1047	1037	1057	1065
Ending Stocks	42	42	45	40	38	40
TOTAL DISTRIBUTION	1656	1655	1707	1647	1735	1655

## Trade

### Live Cattle Trade

On July 18, 2005, the U.S. eased BSE-related import restrictions to permit entry of live Canadian cattle under 30 months of age for immediate slaughter and of feeder cattle destined to designated premises and eventual slaughter. As a result, live Canadian cattle exports to the U.S. during the remainder of 2005 (mid-July through December) reached an estimated 550,000 head, a level that is below the pre-BSE rate for a comparable period. During 2002, the year prior to the BSE finding in Alberta, Canada exported 1.7 million head to the United States. Some of the factors that have reduced the rate of flow of Canadian live cattle exports are: 1) increased slaughter capacity in Canada; 2) a stronger Canadian dollar; 3) older aged cattle not eligible for export; 4) a reduction in the number of cattle transportation companies in Canada (casualties of the 2 years of no trade) and; 4) additional export documentation and requirements (protocols on pregnancy and dentition) under the U.S. Minimal Risk Rule that are cited by some in the Canadian cattle industry as a disincentive to export.

For 2006, post forecasts total cattle exports to the U.S. to range between 900,000 to 1.0 million head. If a USDA proposed rule to permit the import of Canadian cattle over 30 months is published this year and proceeds to final rule, the annual level of Canadian live cattle exports to the U.S. would probably increase by about another 10-15%.

### Beef Trade

In the January–November period of 2005, total Canadian beef exports slipped fractionally from the same period a year ago due mostly to lower exports to Mexico and the Philippines. Increased exports to the United States and to Hong Kong over the same period failed to offset these declines.

For 2006, total Canadian beef exports are forecast to be static or slightly lower than last year. Beef exports to the U.S. are forecast to be lower reflecting, in part, the effect of renewed access to the U.S. market for live slaughter cattle. The reopening of the Japanese market to Canadian beef may boost exports to that Asian nation, but quantities exported to Japan may not be significant. Canadian beef sales to Japan in the three years immediately prior to Canada's initial BSE case in May 2003, only accounted for an average of 3.7% of total Canadian beef exports. In addition, recent sales of Canadian beef to Mexico, the second most important market for Canadian beef exports, have slowed.

## Section II. Hogs and Pork

## Hog Inventory

Present indicators suggest that Canadian swine breeding herd inventory may show a modest, albeit temporary, decline at the beginning of 2006 when the Statistics Canada hog survey data are released later this month. However, farrowing intentions may increase as the year progresses with the total pig crop for 2006 totaling close to last year's mark. Live hog exports to the United States are forecast to increase by about 6% to 8.7 million head from an estimated 8.2 million head in 2005 (i.e., utilizing trade data through November 2005).

Commodity	Animal Numbers, Swine (1000 HEAD)					
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]
Market Year Begin	01/2004		01/2005		01/2006	
TOTAL Beginning Stocks	14623	14623	14675	14675	14805	14950
Sow Beginning Stocks	1578	1578	1613	1613	1610	1600
Production (Pig Crop)	33080	33117	32600	32500	32500	32400
Intra EC Imports	0	0	0	0	0	0
Total Imports	6	6	5	1	5	2
TOTAL Imports	6	6	5	1	5	2
TOTAL SUPPLY	47709	47746	47280	47176	47310	47352
Intra EC Exports	0	0	0	0	0	0
Total Exports	8511	8511	7845	8200	8000	8700
TOTAL Exports	8511	8511	7845	8200	8000	8700
Sow Slaughter	0	0	0	0	0	0
OTHER SLAUGHTER	22889	22889	23000	22350	23000	22500
Total Slaughter	22889	22889	23000	22350	23000	22500
Loss	1634	1671	1630	1676	1610	1552
Ending Inventories	14675	14675	14805	14950	14700	14600
TOTAL DISTRIBUTION	47709	47746	47280	47176	47310	47352

## Pork Production Outlook

A modest production increase of about 1% is the current outlook for Canadian pork production in 2006. The sow inventory at the beginning of 2006 is expected to show a small decline when the official numbers are released by Statistics Canada in mid-February 2006. Total pig exports to the United States in 2006 are forecast to climb near 8.7 million head, up 6.0% from the estimated 8.2 million head during 2005. Combined with ever increasing Canadian pork exports, now over the 1.0 million metric ton level, the Canadian domestic market plays a smaller role in influencing Canadian pork production swings.

Commodity	Meat, Swine					
	(1000 MT CWE)(1000					
	2004	Revised	2005	Estimate	2006	Forecast
Market Year Begin	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]
	01/2004		01/2005		01/2006	
Slaughter (Reference)	22889	22889	23000	22350	23000	22500
Beginning Stocks	48	48	50	45	58	38
Production	1936	1936	1960	1915	1975	1930
Intra EC Imports	0	0	0	0	0	0
Total Imports	105	105	135	142	155	160
TOTAL Imports	105	105	135	142	155	160
TOTAL SUPPLY	2089	2089	2145	2102	2188	2128
Intra EC Exports	0	0	0	0	0	0
Total Exports	972	972	1075	1080	1100	1110
TOTAL Exports	972	972	1075	1080	1100	1110
Human Dom. Consumptic	867	867	810	789	829	775
Other Use, Losses	200	200	202	195	204	203
TOTAL Dom. Consumptic	1067	1072	1012	984	1033	978
Ending Stocks	50	45	58	38	55	40
TOTAL DISTRIBUTION	2089	2089	2145	2102	2188	2128

## Pork Trade

Canadian pork imports in 2006 are forecast to register another year-to-year sharp increase reflecting increased imports from the United States and from Denmark. In the January-November period of 2005, Canadian imports of pork from the United States increased almost 30% above the year earlier level. The development is related to increased imports of certain cuts from the United States as Canadian pork processors utilize domestic production to fill overseas orders, mostly Japan.

Canadian pork exports during 2006 are forecast to increase about 3% from the 2005 level. Increased exports to Japan, Mexico and Russia are expected to provide most of the impetus for higher exports. Canadian pork exports to the United States in 2006 are forecast to be lower.



## Policy Updates

### Canada's Fourth Case of BSE

On January 23, 2006 the Canadian Food Inspection Agency (CFIA) confirmed bovine spongiform encephalopathy (BSE) in an approximately 6 year-old cross-bred cow born and raised in Alberta. CFIA officials said the finding was not unexpected and was identified through Canada's national surveillance program, which focuses on the testing of cattle that are at the highest risk of being infected with BSE. It's Canada's fourth case of BSE since the initial finding in May 2003 in Alberta. In addition, the U.S. animal that tested positive for BSE in December 2003 also came from Alberta. According to the CFIA, no part of the animal entered the human food or animal feed systems and the geographic location and age of the animal are consistent with the three domestic cases previously detected. CFIA officials said that the probable source is contaminated feed. On the same day, Agriculture Secretary Mike Johanns announced that he had spoken with Canadian Agriculture Minister Andy Mitchell and that the U.S. anticipated no change in the status of beef or live cattle imports from Canada.

### U.S. Rule on Cattle Over 30 Months

An important issue that will impact the Canadian cattle industry is the timing of the next U.S. animal health rule to propose expanded eligibility for older live Canadian cattle in the United States. The USDA's Animal and Plant Health Inspection Service is currently evaluating the appropriate approach regarding live cattle 30 months of age and older and intends to address that issue in a separate rulemaking proceeding in the Federal Register possibly by the spring of 2006.

### Corn Trade Case; Implications for Livestock

On December 15, 2005, the Canada Border Services Agency (CBSA) announced preliminary countervailing and anti-dumping duties on U.S. corn imports into Canada. The CBSA's preliminary ruling was in agreement with an earlier November 15, 2005 preliminary ruling by the Canadian International Trade Tribunal (CITT), which found that U.S. unprocessed grain imports had caused injury to the Canadian corn industry. The consequences of the duties are expected to impact several sectors within Canada's agricultural industry. Any price increase of corn will have a negative impact on Canada's livestock sector, possibly resulting in increased exports of feeder pig and possibly feeder cattle in order to take advantage of cheaper feeding costs in the United States, as higher feeding costs will make both industries less competitive compared to U.S. producers. In addition, the duties may result in increased movements of feed wheat and feed barley from western Canada into eastern Canada, replacing the more expensive corn for livestock feed. Final decisions from both CBSA and CITT are pending and are due out on March 15, 2006 and April 16, 2006, respectively. For more analysis, see CA5085.

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